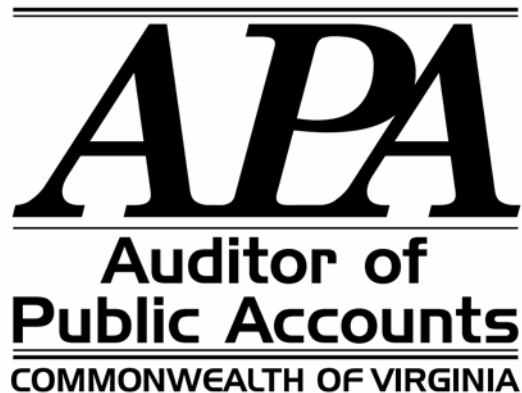


**VIRGINIA COMMONWEALTH UNIVERSITY**

**RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2003**



## **AUDIT SUMMARY**

Our audit of Virginia Commonwealth University for the year ended June 30, 2003, found the following:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider to be reportable conditions; however, we do not consider these to be material weaknesses;
- no instances of noncompliance that is required to be reported under Government Auditing Standards; and
- the University has not taken adequate corrective action with respect to the previously reported finding "Ensure Proper Stewardship and Control Over Fixed Assets." Adequate corrective action was taken with respect to audit findings reported in the prior year that are not repeated in this report.

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# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

December 5, 2003

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Kevin G. Miller  
Chairman, Joint Legislative Audit  
and Review Commission

The Board of Visitors  
Virginia Commonwealth University

We have audited the accounts and records of **Virginia Commonwealth University** and its discretely presented component unit, as of and for the year ended June 30, 2003, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of Virginia Commonwealth University, a component unit of the Commonwealth of Virginia, and its discretely presented component unit as of and for the year then ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Virginia Commonwealth University Health System Authority, a discretely presented component unit, which statements reflect total assets and revenues of \$572,264,033 and \$826,106,001, respectively, as of and for the year ended June 30, 2003. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for the Virginia Commonwealth University Health System Authority is based solely upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Commonwealth University and of its discretely presented component unit as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis presented on pages five through ten is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying Schedule of Auxiliary Enterprises – Revenues and Expenditures is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statement taken as a whole.

#### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Virginia Commonwealth University as of and for the year ended June 30, 2003, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

##### Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

##### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in the section titled Internal Control and Compliance Findings and Recommendations.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

#### Status of Prior Findings

The University has not taken adequate corrective action with respect to the previously reported finding “Ensure Proper Stewardship and Control Over Fixed Assets”. Accordingly, we included these findings in the section entitled “Internal Control and Compliance Findings and Recommendations.” The University has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

The “Independent Auditor’s Report on Compliance and on Internal Control over Financial Reporting” is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Visitors and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

#### EXIT CONFERENCE

We discussed this report with management at an exit conference held on January 15, 2004.

AUDITOR OF PUBLIC ACCOUNTS

MSM:whb  
whb:XX

## INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

### Ensure Proper Stewardship and Control Over Fixed Assets

The University did not adequately maintain and safeguard fixed assets in accordance with the University's fixed asset policies and procedures and the Commonwealth's Accounting Policies and Procedures. Exceptions noted in our test work included being unable to locate fixed assets, assets without identification tags, assets with incorrect location or other description data in the fixed asset system, and assets not appearing on the department's inventory verification listing. These exceptions arose from individual department custodians not following procedures for properly maintaining and tracking fixed assets.

We again recommend that management ensure that each department follows the requirements and guidelines in the University's fixed asset policies and procedures and properly conducts an annual inventory of its fixed assets. Management should establish a uniform procedure of tagging fixed assets so tags are visible for tracking purposes, and update the policies and procedures to reflect changes caused by the new online fixed asset system.

### Improve Controls Over Employee Separation

The University departments did not consistently comply with the University's Guidelines for Separating Faculty and Staff. These guidelines outline the department's responsibilities when it becomes aware of an employee's resignation or termination. We found nine former employees with active VCU identification cards and eight other former employees who still had system access.

As a backup, the system will change an employee's status from "active" to "terminated" if there has been no payroll activity for a specified period, depending on the type of employee, which is called a T29 termination. We found that the T29 process terminated 1,335 of 2,949 (45 percent) employees during the year. This is excessive reliance on a backup procedure.

Management should enforce University Guidelines to ensure the Payroll Department is notified timely of employee terminations and system access is terminated timely. University departments should be required to document that they have followed these procedures when an employee terminates.

## MANAGEMENT DISCUSSION AND ANALYSIS

Virginia Commonwealth University's Management Discussion and Analysis (MD&A) provides a discussion and analysis of the financial performance during the fiscal year ended June 30, 2003, with comparative information presented for the fiscal year ended June 30, 2002. While maintaining its financial health is crucial to the long-term viability of the University, the primary mission of a public institution of higher education is to provide education, research, and public service. Therefore, net assets are accumulated only as required to ensure that there are sufficient reserve funds for future operations and implementation of new programs.

This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

### Using the Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on the University as a whole and present a long-term view of the University's finances

### The Statement of Net Assets

The Statement of Net Assets presents the financial position at the end of the fiscal year and includes all assets and liabilities. The difference between total assets and total liabilities, net assets, is an indicator of the current financial condition of the University. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in property, plant, and equipment owned by the University. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

The following table reflects the condensed Statement of Net Assets of the University and the Authority. For more detailed information, see the accompanying Statement of Net Assets.

	<u>University</u>		<u>VCU Health System Authority</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Current and other assets	\$ 248,465,841	\$ 197,542,523	\$ 323,621,193	\$ 330,741,422
Capital assets – net	<u>376,022,368</u>	<u>369,020,513</u>	<u>248,642,840</u>	<u>247,438,457</u>
Total assets	<u>624,488,209</u>	<u>566,563,036</u>	<u>572,264,033</u>	<u>578,179,879</u>
Current and other liabilities	107,480,460	101,972,146	98,552,546	118,598,631
Long term liabilities	<u>183,898,301</u>	<u>150,707,826</u>	<u>98,735,524</u>	<u>102,930,339</u>
Total liabilities	<u>291,378,761</u>	<u>252,679,972</u>	<u>197,288,070</u>	<u>221,528,970</u>



Net Assets:

Invested in capital assets, net of related debt	238,212,331	235,774,513	173,312,389	165,435,381
Restricted	27,195,431	44,513,529	16,261,936	16,487,808
Unrestricted	<u>67,701,686</u>	<u>33,595,022</u>	<u>185,401,638</u>	<u>174,646,720</u>
Total net assets	<u>\$ 333,109,448</u>	<u>\$313,883,064</u>	<u>\$ 374,975,963</u>	<u>\$ 356,569,909</u>

- The University's assets increased \$57.9 million and liabilities increased \$38.6 million. The University recorded a receivable of \$19.2 million from the VCU Real Estate Foundation to repay bonds issued for the construction of the Broad and Belvidere apartment complex. During the fiscal year, the University issued bonds and notes payable of \$54.1 million and retired temporary financing of \$13.9 million.
- The University established the Faculty Alternative Severance Option (FASO), which resulted in a liability at June 30, 2003 of \$6.3 million.
- The University's net assets increased by \$19.2 million in fiscal year 2004.
- The Authority's net assets increased by \$18.4 million, or 5.2 percent, over the prior year, as a result of this year's activity.

The Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results, as well as the nonoperating revenues and expenses. State appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

The following is a schedule of the revenues and expenses for the University and the Authority, for the year ended June 30, 2003, with comparative data for the year ended June 30, 2002.

	<u>University</u>		<u>VCU Health System Authority</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Revenues:				
Other revenues:				
Student tuition and fees	\$ 99,926,510	\$ 73,603,341	\$ -	\$ -
Grants and contracts	149,370,120	137,185,745	-	-
Sales and services of educational departments	7,982,193	7,949,171	-	-
Auxiliary enterprises	49,048,955	45,674,175	-	-
Hospital services	15,113,012	17,638,834	826,106,001	678,896,710
Other revenues	<u>9,815,379</u>	<u>30,301,385</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>331,256,169</u>	<u>312,352,651</u>	<u>826,106,001</u>	<u>678,896,710</u>

Expenses:

Operating expenses:				
Program activities:				
Instruction	190,419,481	195,292,359	-	-
Research	101,496,018	92,026,054	-	-
Public service	5,119,446	6,040,423	-	-
Supporting services:				
Academic support	29,010,466	47,252,643	-	-
Student services	7,351,353	9,071,480	-	-
Institutional support	36,302,146	38,257,610	-	-
Operations and maintenance of plant	27,723,999	26,565,981	-	-
Student aid	14,923,272	11,317,322	-	-
Auxiliary enterprises	34,845,952	33,749,319	-	-
Hospital services	12,543,335	16,676,470	769,943,824	652,473,785
Depreciation expense	24,927,593	26,169,077	24,952,761	23,644,150
Other expenses	<u>7,073,140</u>	<u>674,682</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>491,736,201</u>	<u>503,093,420</u>	<u>794,896,585</u>	<u>676,117,935</u>
Net operating revenues (expenses)	<u>(160,480,032)</u>	<u>(190,740,769)</u>	<u>31,209,416</u>	<u>2,778,775</u>
Nonoperating revenues(expenses)				
State appropriations	164,330,658	188,057,625	-	-
Investment income (net of investment expense)	2,834,409	626,660	3,098,331	3,553,343
Interest on capital asset-related debt	(8,053,763)	(6,978,351)	(4,310,508)	(2,447,228)
Gifts	14,838,938	16,634,974	-	-
Other	<u>-</u>	<u>-</u>	<u>(10,821,983)</u>	<u>100,665</u>
Total nonoperating revenues(expenses)	<u>173,950,242</u>	<u>198,340,908</u>	<u>(12,034,160)</u>	<u>1,206,780</u>
Income before other revenues	13,470,210	7,600,139	19,175,256	3,985,555
Additions to permanent endowments	336,907	11,614	-	-
Capital appropriations	2,980,086	1,879,092	-	-
Capital gifts	2,439,181	1,750,718	58,500	78,000
Decrease in beneficial interest in trusts	<u>-</u>	<u>-</u>	<u>(827,702)</u>	<u>(3,053,196)</u>
Changes in net assets	<u>19,226,384</u>	<u>11,241,563</u>	<u>18,406,054</u>	<u>1,010,359</u>
NET ASSETS				
Net assets - beginning of year	<u>313,883,064</u>	<u>302,641,501</u>	<u>356,569,909</u>	<u>355,559,550</u>
Net assets - end of year	<u>\$ 333,109,448</u>	<u>\$ 313,883,064</u>	<u>\$ 374,975,963</u>	<u>\$ 356,569,909</u>

- The University's income before other revenues increased \$5.8 million over the prior year.
- Tuition and fees increased \$26.3 million as a result of the fall semester tuition and fee increases of 6.6 percent for residents and 7.5 percent for non-residents and the mid year tuition increase of \$300 in the Spring 2003. The increase in operating

revenue partially offset the decrease in state appropriations of \$23.7 million and provided resources for University priorities. Operating expenses decreased \$11.4 million.

- Grant and contract revenue increased \$12.2 million as a result of increased awards and the effect of the 50 percent facilities and administrative (indirect) cost rate.
- Patient services revenues comprise the majority of the Authority revenues. Net patient revenues increased \$74.3 million from the prior year due to an increase in volume of selected hospital services and revenue improvement processes. The premium revenue of Virginia Premier increased by \$70.4 million. This was due to Virginia Premier's expansion into southwest Virginia.
- The Authority's expenses increased by \$118.8 million from the prior year. The majority of this increase is the result of the medical claims expense increase of \$64.6 million, which resulted from Virginia Premier's network expansion.
- The Authority made a \$10 million unrestricted gift to the MCV Foundation in support of the academic research mission of the University.

#### The Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the ability to generate net cash flows and meet its obligations as they come due, and the need for external financing.

The following is a summary Statement of Cash Flows for the University and the Authority, for the year ended June 30, 2003, with comparative data for the year ended June 30, 2002. For more detailed information, see the accompanying Statement of Cash Flows.

	<u>University</u>		<u>VCU Health System Authority</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Cash provided (used) by:				
Operating activities	\$ (150,256,842)	\$ (164,351,185)	\$ 100,313,059	\$ 53,267,838
Noncapital financing activities	180,000,868	204,653,629	-	-
Capital and related financing activities	(9,027,180)	(38,080,373)	(85,188,372)	(39,855,706)
Investing activities	<u>(5,234,325)</u>	<u>882,218</u>	<u>(5,211,187)</u>	<u>(18,337,181)</u>
Net increase (decrease) in cash	15,482,521	3,104,289	9,913,500	(4,925,049)
Cash, beginning of year	<u>78,427,124</u>	<u>75,322,835</u>	<u>30,495,045</u>	<u>35,420,094</u>
Cash, end of year	<u>\$ 93,909,645</u>	<u>\$ 78,427,124</u>	<u>\$ 40,408,545</u>	<u>\$ 30,495,045</u>

- The University's operating cash flows increased as the University increased tuition to partially offset reductions in state appropriations which are included in noncapital financing activities.
- Increases in the Authority's cash flows from hospital services charges and other receipts were used to fund increased payments to suppliers and employees.

## Capital Assets and Debt Administration

### *Capital Assets*

Presented below is the schedule of capital assets net of depreciation. Depreciation expense totaled \$24.9 million for the University and \$25.0 million for the Authority in the current fiscal year.

	<u>University</u>		<u>VCU Health System Authority</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Land	25,594,169	23,186,141	2,683,248	2,683,248
Land improvements and infrastructure	5,369,845	6,283,187	-	-
Buildings	283,147,212	279,428,676	164,607,819	166,897,279
Equipment	32,205,843	35,434,025	45,358,732	43,015,776
Library books	11,349,492	11,518,654	-	-
Construction in progress	18,355,807	13,169,830	35,993,041	34,742,154

- In the current fiscal year, the University recognized the gift of \$2.3 million in land for the Rice Property, which will be the site of the Inger and Walter Rice Center for Environmental Life Sciences.
- The University completed construction of the Bowe Street Parking Deck in fiscal year 2003. Capital projects under construction include the Central Dining Facility, University Libraries Renovation, Student Commons Phase III, the Gladding Residence Addition and the Massey Cancer Center Addition.
- The Authority capitalized \$26.3 million in assets, which was for the clinical information system and the major purchase and replacement of equipment.

### *Debt*

At June 30, 2003, the University had \$169 million and the VCU Health System \$72.3 million in debt outstanding.

- The University issued bonds and notes payable in the amount of \$54.1 million. Of this amount \$34.9 million was issued to fund construction of the academic housing project, the Bowe Street Deck, the renovation of Gladding Residence Hall and Student Commons Phase III. The remaining \$19.2 million was issued to fund construction of the Broad and Belvidere Apartment Complex. The University entered into a financing and support agreement with the VCU Real Estate Foundation (VCUREF), which developed and constructed the facility. In return, VCUREF agreed to fund the debt repayment.

### Future Financial Effects

The following are known facts and circumstances that will affect future financial results.

- State appropriations have been reduced to \$146.1 million for fiscal year 2004.

- University employees will receive salary increases of 2.25 percent in fiscal year 2004.
- On October 31, 2003, the University issued a note to the Virginia College Building Authority (VCBA) in the amount of \$51,383,000. The proceeds of the note will be used to finance the Academic Parking Deck IV, the Central Dining Facility, Rhoads Hall IV, and the Massey Cancer Center Addition.
- The Board of Visitors approved an 8.6 percent increase in resident tuition and mandatory fee rates and an 11.3 percent increase for nonresident tuition and mandatory fee rates for fiscal year 2004.

## **FINANCIAL STATEMENTS**

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF NET ASSETS  
As of June 30, 2003

ASSETS	VCU Health	
	University	System Authority
Current assets:		
Cash and cash equivalents (Note 2)	\$ 93,909,645	\$ 40,408,545
Short-term investments (Note 2)	21,695,338	15,024,096
Accounts receivable:		
Student, Net of allowance of \$1,910,728	8,569,678	-
Sponsors, Net of allowance of \$200,000	14,369,232	-
Patient, Net of allowance of \$23,050,000	-	79,587,308
Third-party and non-patient	-	12,755,980
Due from VCU Health System Authority	1,416,562	-
Due from Commonwealth of Virginia	3,217,275	-
Appropriations receivable	5,478,544	-
Student loans receivable, current portion	3,957,866	-
Other assets	2,028,045	9,210,331
Total current assets	154,642,185	156,986,260
Noncurrent assets:		
Endowment investments (Note 2)	2,801,702	-
Other investments (Note 2)	48,911,666	153,894,312
Student loans receivable, Net of allowance of \$3,398,212	19,327,277	-
Due from VCU Health System Authority	2,710,436	-
Due from VCU Real Estate Foundation (Note 10)	19,200,000	-
Other long-term assets	872,575	12,740,621
Capital assets, Net (Note 4)	376,022,368	248,642,840
Total noncurrent assets	469,846,024	415,277,773
Total assets	624,488,209	572,264,033
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	45,357,750	78,158,560
Deferred revenue	23,440,357	-
Due to Virginia Commonwealth University	-	1,416,562
Long-term liabilities - current portion (Note 8)	14,759,654	16,239,988
Total current liabilities	83,557,761	95,815,110
Noncurrent liabilities:		
Funds held for others (Note 5)	23,922,699	-
Due to Virginia Commonwealth University	-	2,710,436
Other	-	27,000
Long-term liabilities (Note 8)	183,898,301	98,735,524
Total noncurrent liabilities	207,821,000	101,472,960
Total liabilities	291,378,761	197,288,070
NET ASSETS		
Invested in capital assets, net of related debt	238,212,331	173,312,389
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	2,269,693	-
Departmental uses	532,008	15,660,440
Expendable:		
Scholarships and fellowships	4,609,351	-
Research	751,445	-
Departmental uses	15,484,981	601,496
Loans	2,804,082	-
Capital projects	743,871	-
Unrestricted	67,701,686	185,401,638
Total net assets	\$ 333,109,448	\$ 374,975,963

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
As of June 30, 2003

	University	VCU Health System Authority
Operating revenues:		
Student tuition and fees, Net of scholarship allowances of \$21,286,545	\$ 99,926,510	\$ -
Federal grants and contracts	120,214,857	-
State grants and contracts	7,749,823	-
Local grants and contracts	808,008	-
Nongovernmental grants and contracts	20,597,432	-
Sales and services of educational departments	7,982,193	-
Auxiliary enterprises:		
Sales and services	31,576,531	-
Student fees, Net of scholarship allowances of \$1,083,608	17,472,424	-
Hospital services	15,113,012	826,106,001
Other revenues	9,815,379	-
Total operating revenues	331,256,169	826,106,001
Operating expenses:		
Instruction	190,419,481	-
Research	101,496,018	-
Public service	5,119,446	-
Supporting services:		
Academic support	29,010,466	-
Student services	7,351,353	-
Institutional support	36,302,146	-
Operations and maintenance of plant	27,723,999	-
Student aid	14,923,272	-
Auxiliary enterprises	34,845,952	-
Hospital services	12,543,335	769,943,824
Depreciation expense	24,927,593	24,952,761
Other expenses	7,073,140	-
Total operating expenses	491,736,201	794,896,585
Operating gain/(loss)	(160,480,032)	31,209,416
Nonoperating revenues (expenses):		
State appropriations	164,330,658	-
Gifts	14,838,938	-
Investment income, Net of investment expense of \$123,539	2,834,409	3,098,331
Interest on capital asset-related debt	(8,053,763)	(4,310,508)
Other	-	(10,821,983)
Net nonoperating revenues	173,950,242	(12,034,160)
Income before other revenues and expenses	13,470,210	19,175,256
OTHER REVENUES		
Additions to permanent endowments	336,907	-
Capital appropriations	2,980,086	-
Capital gifts	2,439,181	58,500
Decrease in beneficial interest in trusts	-	(827,702)
Increase in net assets	19,226,384	18,406,054
Net assets - Beginning of year	313,883,064	356,569,909
Net assets - End of year	\$ 333,109,448	\$ 374,975,963

The accompanying notes to financial statements are an integral part of this statement.



VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2003

	University	VCU Health System Authority
Cash flows from operating activities:		
Tuition and fees	\$ 97,675,010	\$ -
Grants and contracts	146,522,688	-
Auxiliary enterprise charges	48,298,455	-
Hospital services charges	15,113,012	829,364,936
Payments to suppliers	(129,898,165)	(387,161,806)
Payments to employees	(346,218,012)	(363,816,663)
Loans issued to students	(3,781,191)	-
Collection of loans to students	3,929,528	-
Other receipts (payments)	18,101,828	21,926,592
Net cash used by operating activities	(150,256,847)	100,313,059
Cash flows from noncapital financing activities:		
State appropriations	164,330,658	-
Direct lending receipts	97,937,997	-
Direct lending disbursements	(97,937,997)	-
Gifts	15,175,845	-
Virginia Commonwealth University Health System Authority loan repayment	144,991	-
Noncapital long term-debt	349,374	-
Net cash provided by noncapital financing activities	180,000,868	-
Cash flows from capital financing activities:		
Proceeds from issuance of note payable	-	(23,000,000)
State appropriations for capital assets	1,638,410	-
Gifts for capital assets	2,439,181	58,500
Purchase of capital assets	(37,045,762)	(40,317,890)
Donations and gifts	-	(10,821,983)
Principal paid on capital-related debt	31,994,754	(6,672,625)
Interest paid on capital-related debt	(8,053,763)	(4,310,508)
Decrease in accrued interest payable	-	(123,866)
Net cash used by capital financing activities	(9,027,180)	(85,188,372)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	91,783,792	126,618,833
Investment income	2,563,837	3,185,288
Purchases of investments	(99,581,954)	(134,353,901)
Payments received on notes receivable	-	(607,407)
Other	-	(54,000)
Net cash provided by investing activities	(5,234,325)	(5,211,187)
Net increase in cash	15,482,516	9,913,500
Cash and cash equivalents - Beginning of year	78,427,124	30,495,045
Cash and cash equivalents - End of year	\$ 93,909,640	\$ 40,408,545

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2003

RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH		
USED BY OPERATING ACTIVITIES:		
Operating gain/(loss)	\$ (160,480,032)	\$ 31,209,416
Adjustments to reconcile net gain/(loss) to net cash used by operating activities:		
Depreciation expense	24,927,593	24,952,761
Loss on asset disposition	5,116,314	-
Impairment loss	-	14,172,021
Provision for uncollectible accounts	(45,432)	47,227,834
Changes in assets and liabilities:		
Receivables	(25,796,741)	(22,064,888)
Other assets	(333,210)	(735,257)
Accounts payable	2,478,685	5,443,874
Deferred revenue	(443,299)	-
Compensated absences and deferred compensation	3,681,809	107,298
Deposits	637,466	-
Net cash used by operating activities	<u>\$ (150,256,847)</u>	<u>\$ 100,313,059</u>

The accompanying notes to financial statements are an integral part of this statement.

## **NOTES TO FINANCIAL STATEMENTS**

VIRGINIA COMMONWEALTH UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As one of only three Carnegie Doctoral/Research University-Extensive Universities in Virginia, Virginia Commonwealth University plays a significant role in providing a college-trained workforce, high quality health care, and cultural enrichment for the Richmond area and the Commonwealth.

More than 26,700 undergraduate, graduate, and professional students pursue 174 degree programs on VCU's two campuses: the Academic Campus, situated in the historic Fan District, and the MCV Campus, located two miles east in the commercial and governmental district of downtown Richmond. VCU's one college and eleven schools include the School of Engineering, one of the largest School of Arts in the country, as well as the South's oldest School of Social Work. The University also is the site for the VCU Health System, one of the most comprehensive academic health centers in the nation. In addition, the University operates the VCU School of the Arts in Qatar, located in the capital city of Doha, which provides special educational opportunities in the design professions to the citizens of Qatar. Currently, there are approximately 120 students enrolled, and all facilities are owned by state of Qatar.

The University's accounting policies conform with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority applies all FASB statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued, unless those pronouncements conflict with or contradict GASB pronouncements. The accompanying financial statements of the University are prepared in accordance with generally accepted accounting principles as prescribed by GASB Statement 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*. Since the University is a component unit of the Commonwealth of Virginia, it is included in the Comprehensive Annual Financial Report of the Commonwealth.

A. Reporting Entity

The accompanying financial statements include the accounts of all organizational units of Virginia Commonwealth University and the Virginia Commonwealth University Intellectual Property Foundation, a component unit, which is blended (consolidated) with University operations. These statements are presented as stand-alone statements of the University. Effective July 1, 2000, the Virginia Commonwealth University Health System Authority (VCUHSA) is discretely presented.

The Virginia Commonwealth University Health System Authority (the Authority) (formerly the Medical College of Virginia Hospitals Authority) is a public corporate body and political subdivision of the Commonwealth of Virginia created and established by an Act of the General Assembly of the Commonwealth of Virginia during 1996. The Authority is a tax-exempt, not-for-profit organization under the provisions of Internal Revenue Code Section 115. Effective July 1, 2000, in conjunction with legislation enacted by the Commonwealth of Virginia, the Authority's name was changed, as was its board structure. Concurrent with the legislation and certain changes to MCV Associated Physicians' (MCVAP) board structure, MCVAP began operating as a component unit of the Authority. Management of the Authority consists of former members of management of the Authority and MCVAP prior to July 1, 2000.

The Authority's principal activity is the operation of the Medical College of Virginia Hospitals (the Hospitals), University Health Services, Inc. and Subsidiaries (UHS) and MCVAP. The Hospitals, a division of the Authority, is an approximately 900-bed teaching hospital which provides inpatient and outpatient services primarily to patients in the Commonwealth of Virginia. MCVAP, formed in 1991 as a non-stock, not-for-profit charitable educational organization, functions as the group practice plan for those physicians and health care professionals who have faculty appointments in Virginia Commonwealth University (VCU) School of Medicine. Separate financial statements for MCVAP may be obtained from MCVAP's corporate office. The Hospitals, UHS, and MCVAP are included in the enterprise funds of the Authority.

UHS, a component unit of the Authority, is a not-for-profit, non-stock, tax-exempt corporation which was incorporated on January 26, 1995, to support the educational, scientific, and charitable purposes and activities of the University and, in particular, the activities of the Medical College of Virginia (MCV/VCU) and the Hospitals. These activities include, but are not limited to, activities undertaken pursuant to Section 23-50.16B of the Code of Virginia. UHS is a blended component unit of the Authority due to the significance of the operational and financial relationship between the two entities. Virginia Premier Health Plan, Inc. (VA Premier) is a wholly owned subsidiary of UHS. VA Premier is a for-profit health maintenance organization (HMO) whose primary purpose is to provide quality health care within a managed care framework. The accounts of VA Premier are included in the consolidated financial statements of UHS. Separate consolidated financial statements for UHS may be obtained from UHS's corporate office.

The University also benefits from a number of organizations that exist mainly to support the various purposes and activities of the University and Authority. The assets of these affiliated organizations, which are separately incorporated and managed by their own Boards, are not included in these statements. In accordance with Governmental Accounting Standards Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as described in Note 20, the financial information of the VCU Foundation, the MCV Foundation, the VCU Real Estate Foundation and the Virginia Commonwealth University School of Engineering Foundation will be included in the University's financial statements in fiscal year 2004. The affiliated organizations are listed below and are described in Note 10:

VCU Foundation  
VCU Real Estate Foundation  
Virginia Biotechnology Research Park  
Authority  
Virginia Commonwealth University  
Alumni Association

Medical College of Virginia Foundation  
M.C.V./V.C.U. Dental Faculty Practice Association  
Virginia Commonwealth University School of  
Engineering Foundation  
Medical College of Virginia Alumni Association of  
VCU

B. Basis of Accounting

The financial statements of the University have been prepared on the accrual basis including depreciation expense relating to capitalized fixed assets. Revenues for the summer term are prorated on the basis of student class days occurring before and after June 30.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not contradict or conflict with GASB pronouncements, including those issued after November 30, 1989. The University applies only those FASB pronouncements issued prior to November 30, 1989.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. Investments

Investments in open-end mutual funds, debt securities, and equity securities that have readily determinable fair values are carried at fair value. The fair values of marketable equity securities, bonds and other investments are based on quoted market prices. Investments held in the liquidity fund (securities with a maturity of less than one year) of the University are reported as current assets with the remaining investments reported as noncurrent assets.

D. Inventories

Inventories are valued at the lower of cost (generally determined on the first-in, first-out method) or market.

E. Restricted Resources

The Authority's investment balances include resources restricted for debt service under a bond indenture agreement, resources restricted under malpractice trust agreement, resources restricted by insurance regulations of the Commonwealth of Virginia, and resources restricted under the pension plan agreement.

Restricted resources limited by donors to a specific period or purpose are reported as restricted net assets. The Authority restricted net assets consist principally of beneficial interests in perpetual trust funds established by split interest agreements. Split interest agreements are trust agreements established by donors under which the Authority receives benefits that are shared with other beneficiaries. The trust agreements established by donors provide for a third party to hold the trust assets. These trusts do not permit donors to revoke their charitable contributions. Trust assets of \$15,638,000, which are restricted by donors for the Authority in perpetuity, are reported at fair value, which approximates the present value of the future cash receipts from the trust assets.

F. Investment Income

Investment income, including net realized and unrealized gains or losses on investment transactions and investment expense, is recorded as nonoperating revenue.

G. Accrued Compensated Absences

University full-time classified, part-time classified and faculty employed on or after January 1, 1999 who are also active members of the Virginia Retirement System (VRS) are covered under the “Virginia Sickness and Disability Program” (VSDP). The plan provides for sick leave, family and personal leave, short-term disability benefits and long-term disability benefits. Full-time classified, part-time classified and faculty employed prior to January 1, 1999, who are active members of VRS, participate in VSDP under one of two options or remain under the traditional sick leave program in which classified employees and twelve month faculty earn 5 hours of leave each pay period regardless of the length of state service and nine month faculty accrue 48 hours per semester. One VSDP option permitted eligible employees to convert accumulated sick leave balances to short-term disability credits. The other allowed for the conversion of sick leave balances to VRS service credit. The University was not required to currently fund the cost of conversion to VRS service credit. Enrollment in the VSDP is irrevocable, and no additional enrollments are planned. Under VSDP, unused VSDP sick leave and family and personal leave balances do not carry forward from one year to the next, and employees are not paid for unused balances upon termination. The converted short-term disability credits of classified employees are payable upon termination in accordance with the Commonwealth of Virginia’s sick leave payout policy discussed below. Faculty who converted sick leave balances to short-term disability credits are not compensated for these balances at termination.

Full-time and part-time twelve-month faculty and classified employees earn annual leave based upon the number of years of continuous state service. Faculty and classified employees carry forward annual leave balances from one year to the next based on the years of service. Upon termination, the payout of unused annual leave balances is subject to the maximum payout policy for each category of employee.

Employees who are not subject to the overtime provisions of the Fair Labor Standards Act may be eligible to earn compensatory leave. Leave is earned on an hour-for-hour basis for having worked additional hours in a workweek, holidays or scheduled days off. Compensatory leave may be used for paid time off and is payable upon termination. Accrued compensatory leave lapses within 12 months from the date it is earned and once lapsed may not be used or paid upon termination.

The University records a liability for all unused annual, non-VSDP sick and compensatory leave, and unused short-term disability credits as well as related fringe benefits. Annual and compensatory leave balances are paid in full upon termination. Non-VSDP sick leave and short-term disability credits are payable upon employment termination and are limited to 25 percent of the value accumulated or \$5,000, whichever is less, under the Commonwealth of Virginia's sick leave pay-out policy for employees with 5 or more years of service.

The Authority records a liability for all paid time off and related FICA taxes expected to be paid.

H. Capital Assets

Capital assets are stated at cost or, if donated, at fair market value on the date of acquisition. Equipment costing \$5,000 or more with a useful life of 2 or more years is capitalized. Infrastructure assets are included in the financial statements and are depreciated. The University and the Authority record depreciation on property, plant, and equipment, including capital leases and excluding land and construction in progress, computed over the estimated useful lives of the assets based on the straight-line method. The general range of estimated useful lives is 10 to 40 years for buildings and fixtures and five to 20 years for equipment. The estimated useful life of library books is five years. The general range of estimated useful lives is 10 to 25 years for land improvements and infrastructure. Expenditures for construction in progress are capitalized as incurred and reflected in net investment in plant. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. Capital assets at the time of disposal revert to the Commonwealth of Virginia for disposition.

I. Hospital Services

In addition to the services provided by the Authority to patients, the University provides facilities, graduate medical education, clinical support, and administrative support to hospitals. The revenues and expenditures necessary to provide the services are classified as hospital services.

J. Charity Care

The Authority provides care to patients who meet certain criteria under its indigent care policy without charge or at amounts less than its established rates. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The costs and expenses incurred in providing these services are included in operating expenses. Charges written off to charity care for the year ended June 30, 2003, measured at established rates, approximated \$199,488,000.

K. Net Patient Service Revenue

Net patient service revenue is reported in hospital services at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, and includes estimated retroactive adjustments due to future audits, reviews, and investigations.



Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

A summary of the payment arrangements with major third-party payors follows:

- *Anthem.* Inpatient acute care services rendered to Anthem subscribers are paid at a per diem rate or discounted rate. Outpatient services rendered to Anthem subscribers are reimbursed at discounted rates or applicable fee schedule. The rates are not subject to retroactive adjustment.
- *Medicare.* Inpatient acute care services and defined capital costs rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates may vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, certain outpatient services and education related to Medicare beneficiaries are paid based on prospectively determined rates and a discounted cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2001.
- *Medicaid.* Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a per diem rate. Outpatient services rendered to Medicaid program beneficiaries are reimbursed on prospectively determined rates and a cost reimbursement methodology. In addition to inpatient and outpatient services provided to Medicaid program beneficiaries, Medicaid reimburses the Authority for services provided to indigent patients up to an amount which results in total Medicaid and indigent reimbursement to the Authority of \$200 million in 2003. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2000.

In accordance with the third-party payor agreements, the difference between payment for services and the Authority's standard billing rates results in contractual adjustments. Contractual adjustments are recorded as deductions from patient service revenue in the period in which the related services are rendered. The annual settlements of reimbursement for patients services covered by third parties are determined through cost reports for Medicare (for outpatient and educational costs) and Medicaid. The settlements are subject to audit and retroactive adjustment by these third parties.

Provisions for possible adjustments of cost reports have been estimated and reflected in the accompanying financial statements as considered appropriate. The difference in any year between the originally estimated amount and the final determination is reported in the year of determination as an adjustment to net patient service revenue. Net patient service revenue was decreased by approximately \$4,600,000 in 2003, as a result of such settlements.

L. Premiums Earned

VA Premier has contracts with the Virginia Department of Medical Assistance Services (DMAS) wherein VA Premier provides health care services to the Aid for Families with Dependent Children (AFDC), the Children's Medical Services Insurance Plan (CMSIP) and Aged, Blind and Disabled (ABD) residents of Virginia through a health maintenance organization (HMO). VA Premier recognizes premiums received from DMAS for members in the period to which health care coverage relates. All of VA Premier's premiums were earned from contracts with DMAS.

M. Uncollectible Accounts

A provision for uncollectible accounts is recorded during the period in which collection is considered doubtful.

N. Estimated Medical Claims Payable

VA Premier provides for the liability arising from services rendered to HMO members but unpaid at year-end based upon the experience of VA Premier and cost-per-member trends. Although considerable variability is inherent in such estimates, management believes that the liability is adequate. Any required revisions to these estimates are reflected in operations of the period in which such revisions are determined.

O. Net Assets

GASB Statement 34 requires that the Statement of Net Assets reports the difference between assets and liabilities as net assets, not fund balances. Net assets are classified according to external donor restrictions or availability of assets for satisfaction of obligations. Invested in capital assets net of related debt represents the net value of capital assets (property, plant and equipment) less the debt incurred to acquire or construct the asset. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent gifts that have been received for specific purposes.

Unexpended appropriations for capital projects are included in expendable restricted net assets as they are not available for general operating purposes.

P. Scholarship Allowances and Student Aid

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (loans, funds provided to students as awarded by third parties and Federal Direct Lending) is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a total university basis by allocating the cash payments to students, excluding payments for services, on the ratio of all aid to the aid not considered to be third party aid.

Q. Intangibles

The Authority's prepaid expenses and other assets include \$4,424,899 of goodwill. On January 1, 2002, (beginning of VA Premier's fiscal year) the Authority early adopted Statement of Financial Accounting Standards (SFAS) No 142, *Goodwill and Other Intangible Assets*, which requires that goodwill is no longer amortized, but is reviewed annually for impairment.

R. Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state, and nongovernmental grants and contracts.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, and other revenue sources that are defined as nonoperating revenues by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment and interest income.

Nonoperating expenses include interest on debt related to the purchase of capital assets and losses on the disposal of capital assets. All other expenses are classified as operating expenses.

2. CASH AND INVESTMENTS

Cash

All cash of the University is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et seq. of the Code of Virginia or covered by federal depository insurance.

Investments

The University's non-state funds, other than endowment and funds internally designated to function as an endowment, are managed by professional investment managers. The University's investment objective is to ensure the preservation of asset values with sufficient liquidity to meet cash disbursement requirements. The investment policy of the University is established by the Board of Visitors and is monitored by its Finance, Investment, and Property Committee. Investment managers may invest in the following types of investments: direct obligations of the United States, obligations unconditionally guaranteed by the United States, including collateralized mortgage obligations, obligations of any agency or instrumentality of the United States, repurchase agreements, banker's acceptances, commercial paper issued by domestic corporations, money market funds, corporate notes of domestic corporations, fully hedged debt obligations of sovereign governments and companies, obligations of the Commonwealth of Virginia, asset backed securities with AAA ratings, and negotiable certificates of deposit and negotiable bank notes of domestic banks. The allocation of assets at June 30, 2003, is 5.7 percent high-quality cash equivalents with maturities of less than three months and 94.3 percent high quality fixed income securities.

In accordance with Bond Resolutions adopted by its Board of Directors, the Authority can invest assets held with trustees in the following instruments: obligations of federal agencies or those guaranteed by the United States of America, savings accounts, certificates of deposit, time deposits, and obligations of the Commonwealth of Virginia.

The University's investments at June 30, 2003, that are represented by specific identifiable investment securities are classified as to the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agents in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held in the broker's or dealer's trust department or safekeeping agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the University's name. All of the University's investments are categorized as Category 1.

For management purposes, endowment funds and funds internally designated to function as an endowment, are held in the investment pools of the VCU Foundation and the MCV Foundation. These funds remain the property of the University. The investment pools consist of cash equivalents, bonds, preferred and common stocks, and real estate. The University's equity in the investment pools is based on units or shares in the investment pools. Consequently, funds held by the foundations are not categorized as to the level of risk.

Investments are reported at fair value (market). Categorization of investments at June 30, 2003, is as follows:

	<u>Category 1</u>	<u>Fair Value</u>	<u>Cost</u>
University Investments:			
U.S. Government and U.S. Government			
Agency securities	\$ 27,804,304	\$ 27,804,304	\$ 27,226,974
Corporate Bonds	9,207,349	9,207,349	8,878,228
Commercial Paper	599,675	599,675	599,467
Municipal Bonds	<u>132,716</u>	<u>132,716</u>	<u>111,808</u>
Subtotal	<u>37,744,044</u>	<u>37,744,044</u>	<u>36,816,477</u>
Mutual and Money Market Funds		11,072,452	11,072,447
Investments held by the Treasurer of			
Virginia - Securities Loans		726,870	726,870
Investments held by the VCU			
Intellectual Property Foundation		562,683	121,270
Investment pools held by:			
VCU Foundation		19,135,856	18,255,742
MCV Foundation		<u>4,166,801</u>	<u>3,053,962</u>
Total University investments		<u>73,408,706</u>	<u>70,046,768</u>
Authority Investments:			
Cash and cash equivalents	20,832,163	20,832,163	20,774,358
Money market instruments	3,455,020	3,455,020	3,448,245
U.S. Government and U.S. Government			
Agency securities	46,136,248	46,136,248	45,283,953
Corporate obligations	18,529,840	18,529,840	17,890,942

Commercial Paper	23,193,292	23,193,292	22,562,585
Interest receivable	313,432	313,432	313,432
Mutual funds	4,024,360	4,024,360	6,413,808
Equity securities	<u>14,093,799</u>	<u>14,093,799</u>	<u>13,699,634</u>
Total	<u>130,578,154</u>	<u>130,578,154</u>	<u>130,386,957</u>
Externally restricted:			
Cash and cash equivalents	22,078,319	22,078,319	22,078,319
U.S. Government and U.S. Government Agency securities	601,496	601,496	601,496
Commercial Paper	<u>22,128</u>	<u>22,128</u>	<u>22,128</u>
Total	<u>\$ 22,701,943</u>	<u>22,701,943</u>	<u>22,701,943</u>
Beneficial interest in trust		<u>15,638,311</u>	<u>15,638,311</u>
Total Authority investments		<u>168,918,408</u>	<u>168,727,211</u>
Total investments		<u>\$242,327,114</u>	<u>\$238,773,979</u>

### 3. JOINT VENTURES AND EQUITY INVESTMENTS

UHS has become a joint venture partner with several organizations with net investments totaling approximately \$5,254,000. The investments are noted below. Individual financial statements for each of the investments are available from UHS's corporate office. The investments are noted below.

#### Investment in Richmond Medical Commons, L.L.C.

UHS and the Richmond Eye & Ear Healthcare Alliance (REEH) entered into a joint venture agreement on July 31, 1995, for the purpose of constructing and operating an ambulatory surgery center and related facility. As part of the joint venture agreement, UHS invested \$100,000 in Richmond Medical Commons, L.L.C. (RMC), a Virginia limited liability company. On August 27, 1996, UHS's investment in RMC was reduced to \$40,000 when UHS sold three-fifths of its interest in RMC to an outside third party. On September 30, 1999, UHS purchased an additional 30 percent interest in RMC. UHS's interest is included in other long term assets on the accompanying statement of net assets. UHS contributed \$2,180,000 to RMC in 2003. The investment in RMC of approximately \$4,856,000 is accounted for under the equity method of accounting. UHS is a guarantor, along with REEH, of a 6-year lease for RMC with aggregate payments totaling approximately \$4,770,000.

#### Investment in 7th and Marshall Corporation

Included in other long term assets on the accompanying statement of net assets is a capital contribution to 7th and Marshall Corporation of \$500,000. UHS and Hospital Hospitality House, Inc. are the sole members of the 7th and Marshall Corporation, a not-for-profit corporation formed to support the charitable, educational and scientific activities of UHS and Hospital Hospitality

House, Inc. The 50 percent investment in 7th and Marshall Corporation is accounted for under the equity method of accounting. The investment is carried at \$398,000.

#### Investment in Commonwealth Care of Virginia LLC

On September 25, 1997, Commonwealth Care of Virginia LLC (CCV), an independent practice association, amended and restated its operating agreement for the purpose of permitting the admission of UHS as a Class P member. Under the terms of the agreement, as of September 25, 1997, the notes receivable from CCV of \$458,511, the related accrued interest receivable of \$76,447, and an additional investment of \$194,042 by UHS on September 25, 1997 in CCV were converted into 729 shares of Class P membership interests of \$729,000. The Class P membership interest is entitled to a quarterly preferred distribution of an amount equal to the prime rate of interest plus one percent times UHS's membership interests. The preferred distribution is deferred under certain conditions and is required to be paid before any bonus, withhold, holdback or similar pool distribution. The agreement also has provisions for sharing 20 percent of sales proceeds with UHS in the event CCV experiences a change in control and options to buy back UHS membership interests if certain levels of income are achieved. The 20 percent investment in CCV is accounted for under the cost method of accounting. A valuation allowance of \$729,000 was recorded for the investment in CCV.

#### 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
University:				
Land	\$ 23,186,141	\$ 2,457,809	\$ 49,781	\$ 25,594,169
Land improvements and infrastructure	13,153,321	7,300	194,841	12,965,780
Buildings	424,724,447	16,279,528	1,368,874	439,635,101
Equipment	104,733,355	8,640,351	14,632,537	98,741,169
Library books	75,102,141	4,474,797	147,306	79,429,632
Construction in progress	<u>13,169,830</u>	<u>21,442,940</u>	<u>16,256,963</u>	<u>18,355,807</u>
Total cost of capital assets	<u>654,069,235</u>	<u>53,302,725</u>	<u>32,650,302</u>	<u>674,721,658</u>
Less accumulated depreciation for:				
Land improvements and infrastructure	6,870,134	913,889	188,088	7,595,935
Buildings	145,295,771	12,422,526	1,230,408	156,487,889
Equipment	69,299,330	6,947,218	9,711,222	66,535,326
Library books	<u>63,583,487</u>	<u>4,643,959</u>	<u>147,306</u>	<u>68,080,140</u>
Total accumulated depreciation	<u>285,048,722</u>	<u>24,927,592</u>	<u>11,277,024</u>	<u>298,699,290</u>
Total University capital assets - net	<u>\$ 369,020,513</u>	<u>\$28,375,133</u>	<u>\$ 21,373,278</u>	<u>\$376,022,368</u>

Authority:				
Land	\$ 2,683,248	\$ -	\$ -	\$ 2,683,248
Land improvements and infrastructure	-	-	-	-
Buildings	257,812,127	7,938,866	-	265,750,993
Equipment	181,845,580	17,000,750	2,193,454	196,652,876
Construction in progress	<u>34,742,153</u>	<u>29,841,904</u>	<u>28,591,016</u>	<u>35,993,041</u>
Total cost of capital assets	<u>477,083,108</u>	<u>54,781,520</u>	<u>30,784,470</u>	<u>501,080,158</u>
Less accumulated depreciation for:				
Land improvements and infrastructure	-	-	-	-
Buildings	90,914,848	10,228,326	-	101,143,174
Equipment	<u>138,829,804</u>	<u>14,613,160</u>	<u>2,148,820</u>	<u>151,294,144</u>
Total accumulated depreciation	<u>229,744,652</u>	<u>24,841,486</u>	<u>2,148,820</u>	<u>252,437,318</u>
Total Authority capital assets - net	<u>\$ 247,338,456</u>	<u>\$29,940,034</u>	<u>\$ 28,635,650</u>	<u>\$248,642,840</u>

## 5. FUNDS HELD FOR OTHERS

At June 30, 2003, the University held \$23,922,699, which are composed of the following.

	<u>Funds held for others</u>
Federal loan programs	\$ 22,355,162
Student organizations and others	<u>1,567,537</u>
Total	<u>\$ 23,922,699</u>

## 6. VIRGINIA COMMONWEALTH UNIVERSITY FACULTY EARLY RETIREMENT INCENTIVE PLAN

The University established the Virginia Commonwealth University Faculty Supplemental Retirement Plan for Faculty (Plan) to provide a financial early retirement incentive for certain tenured faculty that will facilitate the release of tenured faculty resources for budget reallocation or reduction in accordance with the University Strategic Plan goals, changes in enrollment, and other University needs. Tenure is a permanent appointment granted to associate professors and professors, which continues until the faculty member leaves the University, is dismissed for cause, or is terminated due to a financial crisis.

The Plan provides an annuity for five years from the date of retirement equal to 20 percent of the average University salary of the faculty members eligible to participate in the Plan, not to exceed 30 percent of the participant's base annual salary from University resources at the time the agreement was signed. In addition, the University provides a health care benefit supplement until the participant becomes Medicare eligible (currently age 65) if the participant retires, or up to 18 months of COBRA benefits if the participant does not retire.

As of June 30, 2003, 46 faculty members were enrolled in the Plan. Payments during fiscal year 2003 were \$587,716. The present value of future Plan payments schedule follows:

<u>Fiscal Year</u>	<u>Plan Obligations</u>
2004	\$ 727,127
2005	788,013
2006	619,277
2007	439,396
2008	286,319
2009-2013	<u>42,315</u>
Total	<u>\$2,902,447</u>

#### 7. VIRGINIA COMMONWEALTH UNIVERSITY FACULTY ALTERNATIVE SEVERANCE OPTION

The University established a Faculty Alternative Severance Option Policy (FASO) whereby certain VCU faculty are eligible to receive defined severance benefits or, in some instances, enhanced retirement benefits (VRS employees only) upon their resignation or retirement from VCU. Participating academic and administrative units must develop business plans designed to achieve strategic budget reductions, program modifications and/or the elimination of positions. Faculty who hold certain teaching, research, administrative and/or professional faculty positions in areas that are targeted in the business plans for modification or reduction and meet the eligibility criteria defined in the policy, are eligible. FASO is not an early retirement program.

Under FASO, severance benefits include severance pay for up to 36 weeks of University salary depending on years of continuous service and employer contributions for health and life insurance coverage for up to 12 months. Enhanced retirement benefits are available through the VRS Defined Benefit Retirement Program with retirement income based on average salary, age, and length of service. In lieu of the severance benefits, eligible faculty may elect to have the University purchase additional years of age or service credit, thereby, enhancing their overall VRS retirement income.

As of June 30, 2003, 116 faculty members participated. Payments during fiscal year 2003 were \$2,115,211. Future payments due in 2004 and 2005 are \$3,012,098 and \$3,291,101, respectively.

#### 8. LONG TERM LIABILITIES

Long term liabilities consist of bonds, notes payable, capital leases, installment purchases, deferred compensation, compensated absences, and estimated losses on malpractice claims.

##### Commonwealth Revenue Bonds

The Commonwealth of Virginia issues bonds for agencies and institutions of the Commonwealth. The University has received a portion of the proceeds to fund capital construction. The University recognizes a liability associated with its share of the bonds and remits principal and



interest payments related to this liability to the Treasurer of Virginia. The General Revenue Pledge Bonds (Section 9d Bonds) carry interest rates of 4.25 percent - 5.75 percent and are due through 2033. The Commonwealth of Virginia Revenue Bonds (Section 9c Bonds) carry interest rates of 2.5 percent to 6 percent and are payable through 2017. Included in the total General Revenue Pledge Bonds are outstanding bonds payable in the amount of \$19,200,000, which will be repaid by the VCU Real Estate Foundation as described in Note 10, are not considered capital asset related debt. Of the total Commonwealth of Virginia Revenue Bonds, outstanding bonds payable in the amount of \$3,077,424 which will be repaid by the Authority as described in Note 10, are not considered capital asset related debt.

#### Virginia College Building Authority

The Virginia College Building Authority (VCBA) issues Educational Facilities Revenue Bonds (Public Higher Education Financing Program). As a participating institution in this program, the University issued a note payable to the VCBA. This note, along with the notes of other institutions, is held by the VCBA as security for the Educational Facilities Revenue Bonds. For accounting purposes, the financing arrangement is considered to represent a note payable. The notes have interest rates of 3 percent to 6 percent.

#### Virginia Public Building Authority

The University participates in a financing arrangement with the Virginia Public Building Authority for the construction of a steam plant adjacent to the MCV campus. The University considers this financing arrangement to be a capital lease with imputed interest rates of 2.25 percent to 5.85 percent.

#### Virginia Biotechnology Research Park Authority

As more fully described in Note 10, the University occupies space owned by the Virginia Biotechnology Research Park Authority. For accounting purposes, this arrangement is considered to be a capital lease with an imputed interest rate of 9 percent.

#### Defeasance of Debt

In prior fiscal years, a portion of the Commonwealth of Virginia Revenue Bonds, of which the University has a share, has been defeased. Details relating to the prior years' defeasances are reported in the Comprehensive Annual Financial Report of the Commonwealth.

The changes in long-term liabilities are as shown below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
University					
Bonds payable:					
General Revenue Pledge Bonds	\$ 49,295,000	\$19,200,000	\$ 2,040,000	\$ 66,455,000	\$ 2,140,000
Commonwealth of Virginia					
Revenue Bonds	<u>28,562,701</u>	<u>71,000</u>	<u>2,692,870</u>	<u>25,940,831</u>	<u>2,936,525</u>
Total bonds payable	<u>77,857,701</u>	<u>19,271,000</u>	<u>4,732,870</u>	<u>92,395,831</u>	<u>5,076,525</u>

Notes payable:

Virginia College Building Authority	<u>24,940,000</u>	<u>34,822,345</u>	<u>920,000</u>	<u>58,842,345</u>	<u>1,545,000</u>
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Capital leases:

Virginia College Building Authority	964,298	-	964,298	-	-
Virginia Public Building Authority	13,540,627	-	798,358	12,742,269	840,444
Virginia Biotechnology Research Park Authority	<u>4,433,277</u>	<u>-</u>	<u>170,049</u>	<u>4,263,228</u>	<u>186,924</u>

Total capital leases	<u>18,938,202</u>	<u>-</u>	<u>1,932,705</u>	<u>17,005,497</u>	<u>1,027,368</u>
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Installment purchases	<u>1,031,085</u>	<u>-</u>	<u>300,863</u>	<u>730,222</u>	<u>280,307</u>
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Total long-term debt	<u>122,766,988</u>	<u>54,093,345</u>	<u>7,886,438</u>	<u>168,973,895</u>	<u>7,929,200</u>
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Compensated absences	23,913,968	15,847,419	19,282,973	20,478,414	3,091,229
Treasury Loans	13,862,779	-	13,862,779	-	-
Deferred compensation	<u>2,088,283</u>	<u>7,705,079</u>	<u>587,716</u>	<u>9,205,646</u>	<u>3,739,225</u>

Total	<u>\$ 162,632,018</u>	<u>\$77,645,843</u>	<u>\$41,619,906</u>	<u>\$ 198,657,955</u>	<u>\$ 14,759,654</u>
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**Authority**

Bonds payable:

General Revenue Pledge Bonds	76,790,000	-	5,695,000	71,095,000	6,015,000
Capital leases	455,562	-	175,773	279,789	188,063
Installment purchases	<u>1,401,118</u>	<u>54,994</u>	<u>508,325</u>	<u>947,787</u>	<u>520,540</u>

Total long-term debt	<u>78,646,680</u>	<u>54,994</u>	<u>6,379,098</u>	<u>72,322,576</u>	<u>6,723,603</u>
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Estimated losses on malpractice

Claims	26,062,767	5,197,222	2,822,688	28,437,301	1,000,000
Compensated absences	<u>14,741,015</u>	<u>2,116,394</u>	<u>2,641,774</u>	<u>14,215,635</u>	<u>8,516,385</u>

Total	<u>\$ 119,450,462</u>	<u>\$ 7,368,610</u>	<u>\$11,843,560</u>	<u>\$ 114,975,512</u>	<u>\$ 16,239,988</u>
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Long-term debt matures as follows:

	Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Installment Purchases	Total
University:						
	2004	\$ 5,076,525	\$ 1,545,000	\$ 2,090,484	\$ 280,307	\$ 8,992,316
	2005	4,648,437	2,055,000	2,089,426	232,412	9,025,275
	2006	4,609,301	2,140,000	2,088,339	217,503	9,055,143
	2007	4,846,028	2,230,000	2,087,495	-	9,163,523
	2008	5,076,518	2,335,000	2,086,131	-	9,497,649
	2009-2013	28,643,791	13,565,000	10,422,104		52,630,895
	2014-2018	21,005,231	17,440,000	3,498,739		41,943,970
	2019-2023	9,105,000	15,655,000	-		24,760,000
	2024-2028	4,155,000	-	-		4,155,000
	2029-2033	5,230,000	-	-		5,230,000
Add: Unamortized Premium		-	1,877,345	-		1,877,345
Less: Interest		-	-	(7,357,221)	-	(7,357,221)
Total		<u>92,395,831</u>	<u>58,842,345</u>	<u>17,005,497</u>	<u>730,222</u>	<u>168,973,895</u>
Authority:						
	2004	6,015,000	-	188,063	520,540	6,723,603
	2005	1,995,000	-	91,726	237,265	2,323,991
	2006	2,080,000	-	-	81,853	2,161,853
	2007	2,175,000	-	-	72,855	2,247,855
	2008	2,270,000	-	-	35,274	2,305,274
	2009-2013	13,160,000	-	-	-	13,160,000
	2014-2018	16,800,000	-	-	-	16,800,000
	2019-2023	21,595,000	-	-	-	21,595,000
	2024-2028	<u>5,005,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,005,000</u>
Total		<u>71,095,000</u>	<u>-</u>	<u>279,789</u>	<u>947,787</u>	<u>72,322,576</u>
Total		<u>\$163,490,831</u>	<u>\$58,842,345</u>	<u>\$ 17,285,286</u>	<u>\$ 1,678,009</u>	<u>\$241,296,471</u>

A summary of future interest requirements is as follows:

	<u>Fiscal Year</u>	<u>Revenue Bonds</u>	<u>Notes Payable</u>	<u>Total</u>
University:				
	2004	\$ 4,619,878	\$ 2,818,671	\$ 7,438,549
	2005	4,373,823	2,749,571	7,123,394
	2006	4,151,923	2,660,680	6,812,603
	2007	3,931,145	2,559,337	6,490,482
	2008	3,701,376	2,448,632	6,150,008
	2009-2013	14,611,312	10,348,357	24,959,669
	2014-2018	7,543,589	6,388,602	13,932,191
	2019-2023	3,369,104	1,847,752	5,216,856
	2024-2028	1,852,738	-	1,852,738
	2029-2033	<u>768,551</u>	<u>-</u>	<u>768,551</u>
Total		<u>48,923,439</u>	<u>31,821,602</u>	<u>80,745,041</u>
Authority:				
	2004	3,532,394	-	3,532,394
	2005	3,178,941	-	3,178,941
	2006	3,087,421	-	3,087,421
	2007	2,991,721	-	2,991,721
	2008	2,878,221	-	2,878,221
	2009-2013	12,494,535	-	12,494,535
	2014-2018	8,637,732	-	8,637,732
	2019-2023	<u>3,606,462</u>	<u>-</u>	<u>3,606,462</u>
Total		<u>40,407,427</u>	<u>-</u>	<u>40,407,427</u>
Total		<u>\$ 89,330,866</u>	<u>\$ 31,821,602</u>	<u>\$121,152,468</u>

9. RETIREMENT, PENSION PLANS, AND POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

University

Substantially all full-time classified salaried and certain full-time faculty employees of the University participate in the defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS is an agent multiple-employer public employee retirement system (PERS) that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The long-term disability benefit provided by the “Virginia Sickness and Disability Program” (VSDP) is administered by VRS. Funding for this benefit has been incorporated into the VRS contribution shown below.

The University's payroll costs, excluding accrued payroll, for employees covered by the VRS for the year ended June 30, 2003, were \$129,103,008. The University's total payroll costs for the year were \$288,589,510.

Information regarding types of employees covered, benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions as well as employer and employee obligations to contribute is established and disclosed in the Comprehensive Annual Financial Report of the Commonwealth of Virginia.

The University's total VRS contributions were \$6,970,085 for the year ended June 30, 2003, respectively, which included the 5 percent employee contribution assumed by the employer. These contributions represent 17 percent of covered payroll for law enforcement employees and 5 percent of covered payroll for employees covered by VRS.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. The Comprehensive Annual Financial Report of the Commonwealth of Virginia provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2003. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

Full-time faculty and certain administrative staff are eligible to participate in other retirement plans. These are fixed-contribution programs where the retirement benefits received are based upon the employer (5.4 percent) and employee (5 percent) contributions (all of which are paid by the University) plus interest and dividends.

Individual contracts issued under the plans provide for full and immediate vesting of both the University's and the employee's contributions. Contributions to other retirement plans were calculated using the base salary \$96,002,990 in fiscal year 2003. Total pension costs under these plans were \$9,984,311 in fiscal year 2003.

The state participates in the VRS administered statewide group life insurance program, which provides post employment life insurance benefits to eligible retired and terminated employees. The state also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of state service and participate in the state health plan. Information related to these plans is available at the statewide level in the Comprehensive Annual Financial Report of the Commonwealth.

The Deferred Compensation Plan (DCP) gives eligible participants (full- and part-time faculty and staff who contribute at least \$10 each pay period through the TDA Program) a matching contribution of 50 percent up to a maximum of \$20 each pay period of the amount faculty and staff contribute through the TDA Program.

#### Authority

Prior to July 1, 1997, employees of the Authority were employees of the Commonwealth of Virginia (the Commonwealth). These employees are eligible to participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers life

insurance and health-related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth, not the Authority, has overall responsibility for these plans. Total pension costs for the year were approximately \$2,979,000.

Effective July 1, 1997, the Authority established the Virginia Commonwealth University Health System Authority Defined Contribution Plan (the Plan). All employees working at least 35 hours of service per week are eligible to participate in the Plan. Per the Plan document, as approved by the Authority's Board of Directors, the Authority contributes up to 8 percent of the participant's salary to the Plan, up to a maximum of \$30,000. Total contributions to the Plan for the year were approximately \$6,874,000. The Authority shall have the right at anytime, and without the consent of any party, to terminate the Plan in its entirety. Any changes to the provisions of the Plan, including the contribution requirements, must be approved in writing by the Authority's Board of Directors.

The Authority has also established the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (the HCP Plan). All persons hired as a health care provider on or after July 1, 1993 and prior to July 1, 1997 and working at least 35 hours of service per week are eligible to participate in the HCP Plan. All significant provisions of the HCP Plan, including the contribution requirements, are similar to the Plan. Total contributions to the HCP Plan for the year were approximately \$31,000.

The Plan and the HCP Plan use the accrual basis of accounting and the Plan assets, which consist of mutual funds, are carried at fair market value. The fair market values of the mutual funds are based on quoted market prices. Individual organizations that hold 5 percent or more of the assets are:

	<u>2003</u>
Fidelity Investments	\$ 18,992,635
TIAA/CREF	14,625,937
VALLIC	<u>4,149,375</u>
Net assets available for plan benefits	<u>37,767,947</u>
Beginning net assets available for plan benefits	30,211,648
Pension contributions	8,028,931
Investment gain	1,048,339
Pension benefit payments	<u>(1,520,971)</u>
Ending net assets available for plan benefits	<u>\$ 37,767,947</u>

Prior to January 1, 2002, MCVAP sponsored the MCVAP 403(b) Retirement Fund (the 403(b) Plan), which included a defined contribution plan covering substantially all non-medical employees of MCVAP and a salary reduction plan, which represents employee contributions. MCVAP's contribution to the 403(b) Plan (7.5 percent of participants compensation) combined with the employee's salary reduction amounts approximated \$1,764,000 for the year ended June 30, 2002. As of January 1, 2002, no additional contributions were made to this Plan.

MCVAP sponsors the MCVAP 401(a) Retirement Plan (the 401(a) Plan), a noncontributory, defined contribution plan which covers substantially all full-time clinical provider employees of MCVAP. Contributions to the 401(a) Plan by MCVAP, as determined annually at the discretion of the Board of Directors, were approximately \$4,283,000 for the year.

MCVAP sponsors the VCUHS 401(a) Retirement Plan (the VCUHS 401(a) Plan), a defined contribution plan which covers all non-medical employees of MCVP and the VCUHS 457(b) Retirement Plan (VCUHS 457(b) Plan), a salary reduction plan that represents employee contributions. These plans became effective on January 1, 2002 and replaced the MCVAP 403(b) plan for all non-medical staff. The 401(a) Plan contributions are a function of the employee's age plus years of service per the table below. MCVAP employees may contribute to the VCUHS 457(b) Salary Reduction Plan. Employees may also receive a 2 percent matching contribution in their VCUHS 401(a) Plan based on their 457(b) salary reduction contribution.

<u>Age + Years of Service</u>	<u>Employer Contribution (401(a) Plan)</u>
65+	10%
55 – 65	8
45 – 55	6
35 – 45	4
<35	2

The contributions to the VCUHS 401(a) Plan and the VCUHS 457(b) Plan for the period January 1, 2002 through June 30, 2002 were approximately \$1,312,000. Contributions to the Plan for the period ended June 30, 2003 were \$3,090,000.

Effective August 1, 1999, VA Premier adopted a 401(k) plan sponsored by Prudential Mutual Fund Management, Inc. Employees may enter into the plan on the first day of the month coinciding with or following the date on which the employee begins employment. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute 1 percent to 15 percent of their compensation. VA Premier will match 50 percent of the employees' contributions up to 4 percent of the employees' compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes 3 percent of the employee's compensation after each bi-weekly payroll effective when the employee begins employment. Employees are fully vested after 4 years of service in which the employees have at least 1,000 hours of service each year. The total expense to VA Premier was approximately \$241,000.

#### 10. RELATED PARTIES

The financial statements do not include the assets, liabilities, or fund balances of affiliated organizations. All of these organizations are separately incorporated entities managed by their own Boards and audited by other independent certified public accounting firms. Each organization is described below.

##### Medical College of Virginia Foundation

The foundation is organized to aid, strengthen, and extend the work, services, and objectives of the Virginia Commonwealth University Health System Authority and the Health Sciences Campus of

Virginia Commonwealth University. This is achieved through the receipt of contributions, investment and management of funds and the disbursement of current funds and a portion of the total return on endowment. Foundation transfers and expenditures to support University programs were \$16,374,000 in 2003.

#### VCU Foundation

The foundation functions solely to assist and support the University. In that capacity, the foundation holds and manages selected investments for the University. The University received \$3,618,277 in 2003 from the foundation.

#### VCU Real Estate Foundation

The foundation functions solely to assist and support the University. The sole purpose of the foundation is to hold and manage real estate for the University. On February 1, 2003, the foundation entered into a financing and support agreement with the University for the Broad and Belvidere student housing facility. Under the terms of the agreement, the foundation agreed to develop and construct the project and provide for payment of debt service. In return, the University issued \$19,200,000 of its tax-exempt general revenue pledge bonds, as shown in Note 8, to fund construction and agreed to operate the facility as part of its student housing system. The University received \$348,067 in 2003 from the foundation to support University programs and has an operating lease liability of \$907,723.

#### Virginia Commonwealth University School of Engineering Foundation

The foundation is organized exclusively for educational, scientific, and charitable purposes and to provide financial and other support to the University's School of Engineering. The University has issued \$26,895,000 of General Revenue Pledge Bonds for the purpose of constructing a School of Engineering Foundation building. The proceeds were advanced to the School of Engineering Foundation who, as owner of the property, constructed the building. The School of Engineering Foundation solicits contributions and remits funds to the University sufficient to retire the indebtedness including interest. The funds received from the School of Engineering Foundation will be recorded as contributions received. For accounting purposes, the University records a leasehold interest in Net Investment in Plant equal to the funds advanced. The University received \$2,628,153 in 2003.

The following summarizes selected financial data, excluding data included in the University's financial statements, of the fund raising foundations which support the University, the Medical College of Virginia Foundation, the VCU Foundation, the VCU Real Estate Foundation and its controlled affiliate, and the Virginia Commonwealth University School of Engineering Foundation at June 30, 2003. In accordance with pending Governmental Accounting Standards Board Statement No. 39, Determining Whether Certain Organizations Are Component Units, as described in Note 20, the University will present the financial information for the foundations noted above in the body of the University's financial statements in fiscal year 2004.



Assets:	2003
Cash and investments	\$ 247,819,455
Other assets	<u>58,503,200</u>
Total assets	<u>\$ 306,322,655</u>
Liabilities and fund balances:	
Accounts and loans payable	\$ 37,634,064
Net Assets	<u>268,688,591</u>
Total liabilities and fund balances	<u>\$ 306,322,655</u>
Revenues and other fund additions	<u>\$ 54,008,721</u>
Expenditures and other fund deductions	<u>\$ 28,945,062</u>

#### Medical College of Virginia Alumni Association of VCU

The purpose of the Medical College of Virginia Alumni Association of VCU is to organize alumni activities for Virginia Commonwealth University. The University provided funding of \$204,852 in 2003 as the principal source of funding for the Association's operation.

#### Virginia Commonwealth University Alumni Association

The Association was formed for educational purposes to further the best interests of the University, its alumni and students. The University provided funding of \$81,962 in 2003 as the principal source of funding for the Association's operation.

#### Virginia Biotechnology Research Park Authority

The primary purpose of the Virginia Biotechnology Research Park Authority is to expand knowledge pertaining to scientific and technological research and development among public and private entities and promote the economic and industrial development of the City of Richmond and the Commonwealth of Virginia. The University currently occupies 34,439 square feet of Biotech One under a capital lease as shown in Note 8. In addition, the University is committed to a twenty year Master Lease with the Authority, which guarantees monthly rent equal to the principal and interest necessary to amortize the outstanding debt associated with the construction of the facilities and any additional rent required. The maximum amount payable under this Lease for space not occupied by the University is \$543,235 annually during the first ten years of the Lease and \$1,278,200 annually for the remainder of the lease term.

#### M.C.V./V.C.U. Dental Faculty Practice Association

The Association was established to support the education, research, service, and patient care mission of the School of Dentistry (School) of Virginia Commonwealth University. The Association promotes and coordinates the delivery of superior patient care at the School.

11. FUNDS HELD IN TRUST BY OTHERS

Under the provisions of the wills of certain benefactors, the University's portion of principal sums with market values of \$13,425,498 at June 30, 2003, was held in trust by others. These assets are not included in the University's balance sheet.

12. COMMITMENTS

The University and the Authority are party to various construction commitments. At June 30, 2003, the remaining commitments were \$48,494,581 for the University and approximately \$18,400,000 for the Authority.

The University also is committed under various operating leases (for buildings, computer equipment, business equipment, etc.). The University has renewal options on the leased assets for another similar term. In most cases, the University expects that, in the normal course of business, these leases will be replaced by similar leases. Rental expense for the fiscal year ended June 30, 2003, was \$3,287,302 for the University and \$7,415,000 for the Authority. In addition, the University reimburses the Commonwealth of Virginia \$141,735 annually for the use of space in a facility owned by the Commonwealth.

The University has, as of June 30, 2003, the following total future minimum rental payments due under the above leases.

<u>Fiscal Year</u>	<u>University</u>	<u>Authority</u>
2004	\$ 1,976,766	\$ 5,158,000
2005	1,189,674	2,545,000
2006	925,913	1,890,000
2007	509,246	1,572,000
2008	162,025	251,000
2009-2013	<u>261,248</u>	<u>-</u>
Total future minimum rental payments	<u>\$ 5,024,872</u>	<u>\$ 11,416,000</u>

Of the total minimum rental payments for the University, \$907,723 is to the VCU Real Estate Foundation, a related party.

13. LITIGATION

The University and Authority have been named as a defendant in a number of lawsuits. The final outcome of any of these lawsuits cannot be determined at this time. However, management is of the opinion that any ultimate liability to which the University and Authority may be exposed will not have a material effect upon the entity's financial position.

14. TRANSACTIONS BETWEEN COMPONENT UNITS

Effective July 1, 1997, the Authority and the University, concurrently, entered into an affiliation agreement, which provides that each will support the mission of the other. The University

will provide graduate medical education, clinical support, administrative support, and medical care of indigent patients to the Authority. The Authority will provide operation and maintenance support for certain buildings included in a five-year lease agreement, residents for the Blackstone Family Practice Residency Training Program, and be the primary teaching hospital for the University.

The University leased the patient care facilities to the Authority under a ninety-nine year lease for the greater of the annual debt service on the facilities or \$1 per year. Additionally, the Authority leased space in other buildings from the University under a five-year lease with two renewal options, except the West Hospital which is not included in the renewal options.

Payments under the agreement with the University for the year were as follows:

By the University to the Authority:

Operation and maintenance – Buildings	
(5 year lease)	\$ 2,696,321
Blackstone Family Practice Residency Training Program	<u>100,581</u>
Total paid by the University to the Authority	<u>\$ 2,796,902</u>

By the Authority to the University:

Graduate education services	\$ 256,528
Non-physician clinical support	2,195,543
Administrative support	4,560,862
Rent on the short-term space	3,069,771
Principal and interest on parking deck debt	531,806
Use of steam plant	<u>587,940</u>
Total paid by the Authority to the University	<u>\$ 11,202,450</u>

## 15. SUBSEQUENT EVENT

On October 31, 2003, the University issued a note to the Virginia College Building Authority (VCBA) in the amount of \$51,383,000. The proceeds of the note will be used to finance the Academic Parking Deck IV project, Central Dining Facility project, Rhoads Hall IV project, and the Massey Cancer Center addition. The note bears interest at rates ranging from 2 percent to 5.25 percent payable in the years 2004 through 2024.

## 16. CONTINGENCIES

Through June 30, 1990, the Hospitals were insured under a claims-made policy with respect to institutional and professional liability, each with liability limits of \$1 million per incident and an aggregate annual liability limit of \$3 million in each policy year. Either the PHICO Insurance Company or The Virginia Insurance Reciprocal provided insurance.

Effective July 1, 1990, and through June 30, 1998, the Hospitals and the Authority were insured under a risk management plan for the Commonwealth of Virginia. This plan was also claims-made with institutional and professional liability limits of \$1 million per incident but no aggregate limit.

Effective July 1, 1998, the Authority insured itself under a self-insured professional liability, self-administered plan. This plan is claims-made with professional liability limits of \$1 million per incident and \$3 million in aggregate with excess insurance coverage up to \$10 million, which is provided by The Reciprocal of America (the Reciprocal), a multiprovider reciprocal insurance company. A revocable trust has been established and is funded based on actuarially determined reserves. At June 30, 2003, the medical malpractice trust fund includes approximately \$4,545,000 for claims and related legal expenses for reported and unreported incidents occurring since July 1, 1998. There have been malpractice claims asserted against the Authority by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through June 30, 2003 that may result in the assertion of additional claims. In addition, there may be other claims from unreported incidents arising from services provided to patients through June 30, 2003. At June 30, 2003, the Authority's management accrued professional liability losses to the extent they fall within the limits of the Authority's self-insurance program or exceed the limits of the excess insurance coverage. The liability for medical malpractice at June 30, 2003 includes approximately \$5,915,000 for claims and related legal expenses for reported and unreported incidents occurring since July 1, 1998. The liability was actuarially determined combining industry data and the Authority's historical experience.

MCVAP's professional liability coverage is provided through a claims-made policy obtained from Universal Re-Insurance Company (URIC), a Bermuda insurance corporation. At June 30, 2001, the policy provided coverage of \$1,550,000 per occurrence and \$5,000,000 in the aggregate. In response to recent legislative changes in the Commonwealth of Virginia regarding malpractice insurance liability limitations, MCVAP has increased its coverage with URIC effective July 1, 2002, to \$1,650,000 per occurrence and \$8,000,000 in the aggregate. Premiums paid by MCVAP to URIC are recorded as expense by MCVAP. There were no premiums paid during 2003. Such premiums, aggregating approximately \$9.7 million from inception to date, are maintained in an irrevocable trust fund administered by SunTrust Bank. Under the terms of the agreement with URIC, no risk has been transferred by MCVAP to URIC. As a result, the premiums paid to URIC have been recorded as a deposit in assets whose use is limited and as a liability for estimated losses for malpractice claims (discounted at 5 percent).

Through June 30, 2002, an excess professional liability policy was written by The Reciprocal of America. This policy covers losses in excess of the URIC limits for an additional aggregate amount of \$10 million.

Effective July 1, 2002, an excess professional liability policy was written by Columbia Casualty Group of the CNA Insurance Group. This policy covers losses in excess of the URIC limits for an additional aggregate amount of \$5 million.

In addition, MCVAP insures itself under a self-insured liability self-administered plan for any claims in excess of its insurance coverage. The Board sets aside funds to be used to fund estimated losses based on actuarially determined reserves. At June 30, 2003, assets whose use is limited includes approximately \$12,781,000 that has been designated by the Board to fund malpractice claims. In addition, MCVAP's management accrued estimated losses on malpractice claims (discounted at 5 percent) includes approximately \$12,781,000 in addition to the amount recorded under the URIC agreement.

Funding levels are based on factors such as actual claims history and the percentage of certainty that actual losses will not exceed the funds set aside to cover these losses. During the fiscal year ended June 30, 2003 and 2002, respectively, the funding level was calculated based on an assumption of 90 percent certainty (90 percent confidence level) that the actual losses related to professional liability would not exceed the available funds. During the year ended June 30, 2002, due to changes in malpractice estimates, management reduced the accrual for malpractice insurance funding by approximately \$1,141,000, which resulted in a credit for malpractice insurance funding in the statements of revenues, expenses and changes in net assets. During the year ended June 30, 2003, management increased the accrual for malpractice insurance funding by approximately \$3,924,000.

VA Premier maintains general and professional liability policies. The general liability policy in force is occurrence-based. The coverage under the professional liability policy is made on a claims-made basis and must be renewed or replaced with the equivalent insurance if claims incurred during its terms, but asserted after its expiration, are to be insured. Coverage limits for the general liability policy are \$1 million per occurrence and \$3 million annual aggregate. The coverage limits for the professional liability policy are \$6 million per medical incident and \$8 million annual aggregate.

In management's opinion, the claims-made insurance coverage is adequate to cover the estimated ultimate liability which could result upon settlement of claims currently asserted against the Authority and the ultimate liability for medical incidents of which the Authority has knowledge but for which no claim has been asserted against the Authority. Based upon current historical data, management is of the opinion that the liability, if any, for unreported medical incidents would not have a material effect on the Authority's financial position.

During fiscal 1996, the Department of Health and Human Services ("HHS") announced its intention to audit Medicare billings submitted by teaching physicians at all of the major teaching hospitals in the United States. During fiscal 1998, MCVAP received notification from the Department of Justice ("DOJ") stating that it was the subject of investigations relating to CHAMPUS and Medicare billing practices. MCVAP has cooperated fully with this notification from the DOJ. At the present time, management does not have sufficient information to determine if MCVAP will have any liability related to these issues or what the potential liability, if any, might be.

#### 17. STOP-LOSS COVERAGE

Effective February 1, 2001, VA Premier entered into a stop-loss arrangement to limit its losses on individual claims. This contract provides stop-loss coverage for all VA Premier enrollee claims. This contract provides coverage for 100 percent of certain hospital claims in excess of \$100,000 subject to certain limitations and an annual limit of \$1,000,000 per enrollee and a lifetime limit of \$2,000,000 per enrollee. Stop-loss premiums of approximately \$41,000 are included in medical claims expense in the year.

18. NET PATIENT SERVICE REVENUE

The Authority's patient service revenue is as follows for the year ended June 30, 2003:

Gross Patient Revenue:	
Inpatient:	
Routine services	\$ 146,754,721
Ancillary services	605,067,788
Outpatient:	
Emergency	44,939,060
Special medical	<u>321,610,891</u>
Total gross patient service revenue	<u>1,118,372,460</u>
Provision for indigent care and contractual adjustments	(561,808,577)
Provision for bad debts	<u>(38,109,430)</u>
Net patient service revenue (Hospitals)	518,454,453
MCVAP's net patient service revenue	<u>89,862,537</u>
Net patient service revenue (Authority)	<u>\$ 608,316,990</u>

19. ESTIMATED MEDICAL CLAIMS PAYABLE

Claims expenses and liabilities arising from services rendered to VA Premier's HMO members are reported when it is probable that services have been provided and the amount of the claim can be reasonably estimated. The claims payable includes an estimate of claims that have been incurred but not reported. At June 30, the amount of these liabilities included in accounts payable and accrued liabilities was \$22,858,589. This liability is VA Premier's best estimate based on available information.

20. PENDING GASB STATEMENT

Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, issued May 2002, will be effective for the fiscal year ending June 30, 2004. This Statement provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units. Generally, it requires reporting as a component unit an organization that raises and holds economic resources for the direct benefit of the University. As a result, where in the past the University presented summary financial information of certain of its foundations in the notes to the financial statements, the University will be required under Statement No. 39 to include selected foundations in the body of its financial statements. The University has identified the foundations which will be included as component units.

## **SUPPLEMENTARY INFORMATION**

VIRGINIA COMMONWEALTH UNIVERSITY  
Schedule of Auxiliary Enterprises -Revenue  
Expenditures and Changes in Fund Balance  
For The Period Ended June 30, 2003

	Athletics	Siegel Center	Food Services	Gyms	Larrick Student Center	Parking and Transportation
Revenue:						
Student fees	\$ -	\$ -	\$ 4,990,726	\$ -	\$ -	\$ -
University fee	6,103,405	2,086,821	-	2,640,347	209,147	1,887,374
Sales and services	1,153,737	1,054,221	1,670,118	272,824	-	6,532,512
Auxiliary interest earnings	-	-	-	-	-	-
Total revenue	7,257,142	3,141,042	6,660,844	2,913,171	209,147	8,419,886
Cost of sales	-	-	-	-	-	-
Net revenue	7,257,142	3,141,042	6,660,844	2,913,171	209,147	8,419,886
Expenditures:						
Personal services	2,604,844	364,069	246,619	1,049,864	138,191	1,403,145
Employee benefits	347,464	54,164	37,370	75,547	20,669	228,764
Contractual services	843,362	645,479	4,271,863	215,082	33,997	1,429,722
Supplies and materials	75,010	(2,021)	(24,596)	119,000	4,304	146,888
Equipment	31,719	4,695	6,002	45,085	56	199,658
Current charges and obligations	2,849,911	1,053,448	436,410	299,984	35,370	1,905,454
Miscellaneous	177,479	53,386	115,600	55,753	6,864	540,767
Operating expenses	6,929,789	2,173,220	5,089,268	1,860,315	239,451	5,854,398
Interdepartmental recoveries and charges	343	-	258	(43)	-	(24,340)
Net operating expenses	6,930,132	2,173,220	5,089,526	1,860,272	239,451	5,830,058
Excess (deficiency) of revenues over (under) operating expenses before transfers	327,010	967,822	1,571,318	1,052,899	(30,304)	2,589,828
Transfers:						
Mandatory	239,191	1,682,783	-	491,957	-	2,471,959
Nonmandatory	149,130	(805,000)	3,407,323	248,623	-	1,637,148
Excess/(deficiency) of revenues over (under) expenditures and transfers	\$ (61,311)	\$ 90,039	\$ (1,836,005)	\$ 312,319	\$ (30,304)	\$ (1,519,279)

Note: This schedule is prepared on the modified accrual basis of accounting and does not support the basic financial statements.



Residence Halls	Stores and Shops	Student Commons	Student Health	Business Services Administration	Development Programs	Unassigned	Steam Plant	Total
\$9,634,823	\$ -	\$ -	\$2,608,642	\$ -	\$ -	\$18,064,675	\$ -	\$35,298,866
71,500	-	2,709,088	253,673	-	141,188	(16,102,543)	-	-
1,325,014	2,535,846	77,921	462,477	21,063	28,899	537,631	2,315,906	17,988,169
-	-	-	-	-	-	-	-	-
11,031,337	2,535,846	2,787,009	3,324,792	21,063	170,087	2,499,763	2,315,906	53,287,035
-	1,303,247	-	-	-	-	-	-	1,303,247
11,031,337	1,232,599	2,787,009	3,324,792	21,063	170,087	2,499,763	2,315,906	51,983,788
3,138,751	191,734	957,089	1,712,775	496,351	166,235	3,922	451,709	12,925,298
329,379	19,075	90,844	220,748	(2,146)	26,274	224	114,919	1,563,295
1,314,235	212,717	110,858	300,779	29,001	(19,126)	1,312,077	391,209	11,091,255
241,366	(34,195)	37,998	344,385	(160,912)	(95,801)	(19,925)	173,043	804,544
268,176	-	4,070	67,536	25,302	2,340	7,634	1,537,838	2,200,111
2,463,579	136,278	343,648	126,892	42,274	44,409	(1,412,003)	160	8,325,814
298,652	15,943	70,126	123,126	6,798	11,557	203,413	-	1,679,464
8,054,138	541,552	1,614,633	2,896,241	436,668	135,888	95,342	2,668,878	38,589,781
(36,555)	-	(27,381)	(5,071)	(577,025)	(4,000)	(122,774)	452	(796,136)
8,017,583	541,552	1,587,252	2,891,170	(140,357)	131,888	(27,432)	2,669,330	37,793,645
3,013,754	691,047	1,199,757	433,622	161,420	38,199	2,527,195	(353,424)	14,190,143
2,212,909	-	645,003	127,114	-	-	221,407	-	8,092,323
(14,268)	1,359,018	297,448	768	-	-	15,273	-	6,295,463
\$ 815,113	\$ (667,971)	\$ 257,306	\$ 305,740	\$ 161,420	\$ 38,199	\$ 2,290,515	\$(353,424)	\$ (197,643)

VIRGINIA COMMONWEALTH UNIVERSITY

Richmond, Virginia

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Vice President for  
Finance and  
Administration**

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January 22, 2004

David A. Von Moll  
State Comptroller  
Virginia Department of Accounts  
P.O. Box 1971  
Richmond, VA 23218

Subject: Response to Internal Control Findings and Recommendations of the Auditor of Public Accounts

Dear Mr. Von Moll:

In compliance with the Commonwealth Accounting Policies and Procedures (CAPP) Manual, Section 10200, Financial Management, Virginia Commonwealth University (VCU) is submitting its response to the "Internal Control Findings and Recommendations" of the Auditor of Public Accounts' Report on Audit for the Year Ended June 30, 2003.

Should you have any questions or require additional information, please contact me at 828-6116.

Sincerely,



Paul W. Timmreck  
Senior Vice President for Finance and Administration

Enclosure

cc: The Honorable Belle S. Wheelan  
Walter J. Kucharski, Auditor of Public Accounts  
Richard D. Brown, Department of Planning and Budget

During Virginia Commonwealth University's (VCU) annual audit, the Auditor of Public Accounts routinely considers internal controls to determine financial statement auditing procedures. Although the Auditor provides no assurance about internal controls, reportable conditions are noted in his report.

The following internal control matters are included in the VCU Report on Audit for the year ended June 30, 2003:

1. Ensure Proper Stewardship and Control Over Fixed Assets
2. Improve Controls Over Employee Separation

While the Auditor's findings indicate conditions requiring management's attention, the conditions do not have a material effect on the financial statements.

Findings of the Auditor:

1. Ensure Proper Stewardship and Control Over Fixed Assets

The audit states, "The University did not adequately maintain and safeguard fixed assets in accordance with the University's fixed asset policies and procedures and the Commonwealth's Accounting Policies and Procedures. Exceptions noted in our test work included being unable to locate fixed assets, assets without identification tags, assets with incorrect location or other description data in the fixed asset system, and assets not appearing on the department's inventory verification listing. These exceptions arose from individual department custodians not following procedures for properly maintaining and tracking fixed assets.

We again recommend that management ensure that each department follows the requirements and guidelines in the University's fixed asset policies and procedures and properly conducts an annual inventory of its fixed assets. Management should establish a uniform procedure of tagging fixed assets so tags are visible for tracking purposes, and update the policies and procedures to reflect changes caused by the new online fixed asset system."

VCU Response:

The University will initiate a complete physical inventory of moveable equipment and conduct an aggressive retraining program for fixed asset custodians to reiterate their responsibilities. In addition, the University will institute financial penalties that will be assessed to departments for failure to maintain fixed assets records. The Property Management unit will explore procedures for the uniform tagging of future fixed assets. The policies and procedures will be updated to reflect changes caused by the on-line fixed asset system.



2. Improve Controls Over Employee Separation

The audit states, "The University departments did not consistently comply with the University's Guidelines for Separating Faculty and Staff. These guidelines outline the department's responsibilities when it becomes aware of an employee's resignation or termination. We found nine former employees with active VCU identification cards and eight other former employees who still had system access.

As a backup, the system will change an employee's status from "active" to "terminated" if there has been no payroll activity for a specified period, depending on the type of employee, which is called a T29 termination. We found that the T29 process terminated 1,335 of 2,949 (45%) employees during the year. This is excessive reliance on a backup procedure.

Management should enforce University Guidelines to ensure the Payroll Department is notified timely of employee terminations and system access is terminated timely. University departments should be required to document that they have followed these procedures when an employee terminates."

VCU Response:

The Senior Vice President for Finance and Administration has reiterated the need for departments to separate employees in a timely manner. The e-mail communication, sent September 11, 2003, to Deans, Directors, and Department Heads, noted that delays in separating employees "create the potential for internal control weaknesses, including employee overpayments" and asked for implementation and enforcement of good business practices. To facilitate the process, departmental Personnel Administrators are able to key on-line separations for hourly, student, and adjunct employees in Manager Self Service. Human Resources will continue to communicate the importance of the timely separation of employees through various means such as Instant HR e-mails and HR Partners training sessions.